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E.O. 11652: GDS

TAGS: EEC, ETRD, EAID, EAGR

SUBJECT: VISIT OF EC DEVELOPMENT COMMISSIONER CHEYSSON

1. SUMMARY - DURING JULY 29-31 VISIT, EC DEVELOPMENT COMMISSIONER CHEYSSON AND US OFFICIALS HAD FRANK EXCHANGE OF VIEWS ON OVERALL DEVELOPMENT OBJECTIVES AND POLICIES AND ON A LARGE NUMBER OF SPECIFIC CURRENT POLICY ISSUES, NOTABLY EC RELATIONS WITH THE ASSOCIATED STATES, US AND EC POLICIES IN THE MIDDLE EAST, THE PROBLEMS OF THE MOST SERIOUSLY AFFECTED LDC'S (MSA'S) AND THE WORLD FOOD CONFERENCE. CHEYSSON EXPRESSED GENERAL SATISFACTION WITH EVOLUTION OF EC AID POLICIES SINCE HIS VISIT TO WASHINGTON IN AUGUST 1973, INDICATING THAT COMMUNITY AID IS MOVING TOWARD A LARGER FINANCIAL COMMITMENT AND BROADER GEOGRAPHIC IMPACT. HE REPEATEDLY INDICATED 1) EC'S FIRM INTENTION NOT TO SPREAD ITS NETWORK OF ASSOCIATION AGREEMENT BEYOND COUNTRIES IN AFRICA AND AROUND THE MEDITERRANEAN ALREADY INFORMALLY AGREED TO BY THE US AND 2) EC'S INTEREST IN CONSULTING CLOSELY WITH US ON MIDDLE EAST ASSISTANCE PROGRAMS. THERE WAS MUTUAL AGREEMENT THAT THE RAPID ECONOMIC DIFFERENTIATION DEVELOPING AMONG VARIOUS LDC'S REQUIRED MORE TAILORED DEVELOPMENT ASSISTANCE POLICIES BY DONOR COUNTRIES. ON MOST CURRENT ISSUES, THERE WAS AGREEMENT ON BROAD POLICY LINES TO BE FOLLOWED BY US AND EC AND ON DESIRABILITY OF CLOSE CONSULTATION TO RESOLVE REMAINING DIFFERENCES OR WORK OUT DETAILS. PRINCIPAL EXCEPTION AROSE IN DISCUSSION OF MSA PROBLEM

WHERE CHEYSSON EXPRESSED UNDERSTANDING OF US FINANCIAL AND CONGRESSIONAL CONSTRAINTS BUT INDICATED THAT US FAILURE TO PARTICIPATE FULLY IN EMERGENCY EFFORT WOULD LEAVE US ISOLATED IN WORLD COMMUNITY. END SUMMARY.

2. EC DEVELOPMENT COMMISSIONER CLAUDE CHEYSSON AND THREE MEMBERS OF HIS STAFF (DURIEUX, SOUBESTRE, EUDE) VISITED WASHINGTON JULY 29-31. CHEYSSON MET WITH AN INTER-AGENCY GROUP (STATE, AID, TREASURY, COMMERCE, AGRICULTURE, LABOR, STR, OPIC) CHAIRED BY AID ADMINISTRATOR DANIEL PARKER AND AMBASSADOR WILLIAM EBERLE OF CIEP ON JULY 29. CONFIDENTIAL

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HE ALSO HAD LUNCH WITH THE DEPUTY SECRETARY AND AT BROOKINGS AND MET SEPARATELY WITH A NUMBER OF HIGH-LEVEL US AND INTERNATIONAL ORGANIZATION OFFICIALS (INCLUDING AT STATE, AID, TREASURY, USDA, CEIP, IBRD, IMF) AND SENATOR JAVITTS. A COMPLETE SCHEDULE OF THE VISIT IS BEING POUCHED. DETAILED COMMENTS ON US-EC CONVERSATIONS FOLLOW.

3. GENERAL POLICIES: CHEYSSON STATED THAT COMMUNITY ASSISTANCE LEVELS WILL GROW FROM AROUND 500 MILLION DOLLARS AT PRESENT TO TWICE THAT SUM BY 1975 OR 1976 AND MORE LATER. ALTHOUGH GROWTH UNTIL NOW HAS BEEN ADDITIONAL TO THE BILATERAL AID PROVIDED BY EC MEMBER STATES,

CHEYSSON EXPECTS THAT INCREASES MUCH BEYOND ONE BILLION DOLLARS FIGURE MIGHT BE ACCOMPANIED BY SOME CUTS IN BILATERAL PROGRAMS. HE STATED EMPHATICALLY THAT THE EC WOULD SEEK NO FURTHER DEPARTURES FROM THE GLOBAL APPROACH TO TRADE; THE ASSOCIATION POLICY WOULD BE EXTENDED TO NO COUNTRIES BEYOND THOSE ALREADY AGREED TO INFORMALLY BY THE US, AND THERE WOULD BE NO ADDITIONAL SPECIAL TRADE PREFERENCES GRANTED. IN THE AFRICAN, COMMONWEALTH AND PACIFIC (ACP) FRAMEWORK, THIS MEANS THOSE COUNTRIES PRESENTLY NEGOTIATING WITH THE EC AS WELL AS AREAS OF SUB-SAHARAN AFRICA WHICH EVENTUALLY OBTAIN INDEPENDENCE. IN THE SOUTHERN MEDITERRANEAN THE COUNTRIES ELIGIBLE ARE ALGERIA, MOROCCO, TUNISIA, LIBYA, JORDAN, SYRIA, LEBANON, EGYPT AND ISRAEL.

MR. PARKER MADE A GENERAL PRESENTATION OF THE U.S. AID REQUEST FOR FY-75. HE STRESSED THAT WE ARE SEEKING SUBSTANTIAL INCREASES IN AUTHORIZATIONS FOR FOREIGN ASSISTANCE ACT FUNDS, FURTHER CONTRIBUTIONS TO THE INTERNATIONAL FINANCIAL INSTITUTIONS AND ARE EXAMINING WAYS TO INCREASE FOOD AID. HE NOTED WE ARE CONTINUING TO REDIRECT OUR AID PROGRAMS TO THE BENEFIT OF THE POOREST ELEMENTS OF THE POPULATION IN THE LDC'S. HE INDICATED THAT A DEVELOPMENT COORDINATION COMMITTEE IS BEING FORMED UNDER HIS CHAIRMANSHIP TO PROVIDE FOR

GREATER INTEGRATION OF U.S. PROGRAMS IN DEVELOPING COUNTRIES.
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BOTH SIDES AGREED THAT OIL AND OTHER COMMODITY PRICE INCREASES HAVE BROUGHT TO A HEAD A DEVELOPMENT WHICH HAD ALREADY BEEN BECOMING APPARENT, THE DIFFERENTIATION OF VARIOUS GROUPS OF LDC'S ACCORDING TO THEIR PER CAPITA GNP AND LEVEL OF DEVELOPMENT. THEY NOTED THE NECESSITY FOR DEVELOPED COUNTRIES TO TAKE THIS INTO ACCOUNT BY READJUSTING THEIR AID PROGRAMS, PROVIDING A MIX OF TECHNICAL AND FINANCIAL ASSISTANCE MORE CAREFULLY TAILORED TO INDIVIDUAL LDC NEEDS.

4. NEGOTIATIONS WITH AFRICAN, CARIBBEAN AND PACIFIC (ACP) STATES: CHEYSSON'S COMMENTS ON THE EC-ACP NEGOTIATING SESSION HELD IN KINGSTON, JAMAICA JULY 25-26 FOLLOWED CLOSELY THE MISSION'S DETAILED REPORT (BRUSSELS 5757). CHEYSSON SAID THE KINGSTON SESSION HAD BEEN A SUCCESS, MAKING CONSIDERABLE PROGRESS TOWARD A FINAL AGREEMENT. HE INDICATED THAT THE REMAINING ISSUES; INCLUDING THE VOLUME AND MANAGEMENT OF THE AID PROGRAM, AND RULES OF ORIGIN ON LDC PRODUCTS COULD LIKELY BE WORKED OUT AT AMBASSADORIAL LEVEL IN BRUSSELS AND THAT A FINAL TEXT SHOULD BE AVAILABLE FOR A NEW MINISTERIAL SESSION IN NOVEMBER. HE REPORTED THAT THE 44 ACP COUNTRIES HAD

DEMONSTRATED A REMARKABLE DEGREE OF UNITY AT KINGSTON, EVEN IN INSTANCES WHERE SIGNIFICANT DEGREES OF DIFFERENCE EXIST IN THEIR INDIVIDUAL INTERESTS. HE ALSO MENTIONED THAT THERE HAD BEEN SHARP CRITICISM OF EC NON-TARIFF BARRIERS AND THE CAP IN THE ACP COUNTRIES.

(A) SUGAR: CHEYSSON STATED THAT THE EC DELEGATION HAD BEEN CONCERNED THAT SUGAR WOULD BE THE KEY TO DISCUSSIONS IN KINGSTON. IN THE EVENT, IT WAS NOT. IN FULFILLMENT OF THE COMMUNITY'S PLEDGE TO THE COMMONWEALTH SUGAR PRODUCERS MADE AT THE TIME OF BRITISH ENTRY INTO THE EC, THE COMMUNITY WILL OFFER A GUARANTEED PRICE TO ACP PRODUCERS ON AN AMOUNT STILL TO BE NEGOTIATED BUT NOT TO EXCEED THE 1.4 MILLION TONS COVERED NOW BY THE COMMONWEALTH SUGAR AGREEMENT. CHEYSSON EXPECTS THAT THE PRICE WILL BE EQUAL TO THAT PAID TO DOMESTIC COMMUNITY SUGAR PRODUCERS UNDER THE CAP. BECAUSE THIS PRICE IS CURRENTLY ONLY HALF THE WORLD MARKET PRICE CHEYSSON FORESEES THAT
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THE AMOUNT OF SUGAR WHICH THE ACP PRODUCERS WILL BE WILLING TO COMMIT TO THE PROGRAM WILL BE CONSIDERABLY LESS THAN 1.4 MILLION TONS. JAMAICA PRIME MINISTER MANLY HAD TOLD HIM AS MUCH. IN A NUMBER OF CONVERSATIONS CHEYSSON EXPRESSED INTEREST IN KNOWING WHETHER THE U.S. SUGAR ACT WOULD BE REVIVED BY THE SENATE, PERHAPS AS PART

OF THE TRADE EXPANSION ACT. HE WAS INFORMED THAT THIS REMAINED A POSSIBILITY BUT THAT HOUSE OPPOSITION MADE PASSAGE SOMEWHAT UNLIKELY. AMBASSADOR EBERLE OFFERED HIS VIEW THAT ONE POSSIBILITY MIGHT BE A MORE FLEXIBLE U.S. PROGRAM FOR SUGAR IMPORTS THAN IN THE PAST AND INDICATED THAT PERHAPS SUCH AN ARRANGEMENT COULD BE WORKED OUT IN TALKS WITH THE EC AND THE MAJOR PRODUCING COUNTRIES. HE ASKED THAT WE BE KEPT PROMPTLY INFORMED OF PROGRESS OF EC SUGAR DEVELOPMENTS.

(B) THE EXPORT EARNINGS GUARANTEE: CHEYSSON SAID THIS WAS THE MAJOR ITEM OF DISCUSSION IN KINGSTON. WHILE THE ACP STATES ARE INTERESTED IN THE SCHEME, THEY EXPRESSED DISSATISFACTION WITH THE EC PROPOSAL, STATING THAT THE REAL NEED WAS TO STABILIZE THE PURCHASING POWER OF THEIR EXPORTS, NOT JUST THEIR MONETARY VALUE. CHEYSSON INDICATED THAT THERE IS NO FINAL AGREEMENT ON THE LIST OF PRODUCTS COVERED BUT DID NOTE THAT NO MINERALS WOULD BE INCLUDED. PARTICIPATING ACP STATES WILL BE ENTITLED TO A COMMUNITY SUBSIDY SHOULD THEIR EARNINGS ON EXPORTS TO THE EC FOR ANY YEAR FALL BELOW THE AVERAGE FOR AN AGREEDBASE PERIOD. ALTHOUGH THE PRECISE DROP WILL BE THE PRINCIPAL FACTOR IN DETERMINING THE AMOUNT OF THE SUBSIDY, SPECIAL PRIORITY WILL BE GIVEN TO THE LEAST DEVELOPED AND THE LAND-LOCKED LDC'S, THE EVOLUTION OF EACH COUNTRY'S

TOTAL EXPORT EARNINGS WILL BE TAKEN INTO ACCOUNT AND THE EC RESERVES THE RIGHT TO EXAMINE WHETHER THE FALL IN EXPORT EARNINGS RESULTED FROM RESTRICTIVE EXPORT OR PRODUCTION POLICIES ON THE PART OF THE LDC INVOLVED. CHEYSSON CHARACTERIZED THE SCHEME AS A STEP TOWARD CREATING THE NEW ECONOMIC ORDER CALLED FOR BY THE LDC'S AT THE SPECIAL UN GENERAL ASSEMBLY SESSION IN APRIL. HE EMPHASIZED THAT EXCEPT FOR SUGAR THE EXPORT GUARANTEES WOULD NOT BE ACCOMPANIED BY ANY LDC GUARANTEE OF SUPPLY. CONFIDENTIAL

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IN COMMENTING ON THE PROPOSAL, US SIDE (MALMGREN) INDICATED WILLINGNESS TO STUDY WHETHER IT COULD HAVE ANY GREATER INTERNATIONAL APPLICABILITY AND ASKED TO BE KEPT INFORMED AS DETAILS WORKED OUT. US SIDE ASKED A NUMBER OF QUESTIONS ABOUT POTENTIAL IMPACT OF SCHEME ON US TRADE INTERESTS.

(C) REVERSE PREFERENCES: CHEYSSON SAID THAT THE KINGSTON COMMUNIQUE MADE IT CLEAR THAT THE ACP STATES WOULD BE REQUIRED TO GRANT NO PREFERENCES IN EXCHANGE FOR THEIR ACCESS INTO THE EC. AMBASSADOR MALMGREN EXPRESSED U.S. SATISFACTION AT THIS APPARENT SUCCESSFUL RESOLUTION OF THE LONG-STANDING REVERSE PREFERENCES ISSUE. HE INDICATED U.S. WILLINGNESS TO WORK CLOSELY WITH THE EC TO FIND A

SENSIBLE WAY TO RESOLVE THE PROBLEM OF SQUARING THE NEW AGREEMENT WITH THE GATT. CHEYSSON EXPRESSED AGREEMENT, NOTING THAT EARLIER US WILLINGNESS TO SEEK PRAGMATIC GATT SOLUTION HAD MADE NON-REQUIREMENT OF RECIPROCITY POSSIBLE. IN RESPONSE TO QUESTION, HE INDICATED EC WOULD BE WORKING WITH ACP'S TO OBTAIN SUPPORT IN THEIR LDC REGIONAL GROUPINGS.

(D) INDUSTRIAL COOPERATION: CHEYSSON SAID THAT THE ACP COUNTRIES WERE PARTICULARLY INTERESTED IN HIGHLIGHTING INDUSTRIAL COOPERATION AND FOR THIS REASON THERE WOULD BE A SPECIAL SECTION ON THIS SUBJECT IN THE FUTURE AGREEMENT. HE STATED THE EC IS WILLING TO PURSUE THIS QUESTION ACTIVELY BUT EMPHASIZED TO THE LDC'S THEIR NEED TO WORK MORE CAREFULLY ON ASSIGNING PRIORITIES FOR INDUSTRIAL DEVELOPMENT IN THEIR NATIONAL PLANS. THE COMMUNITY SIDE ATTEMPTED TO MAKE CLEAR TO THE ACP COUNTRIES THAT TRANSFER OF TECHNOLOGY MEANS BASICALLY ACCESS TO THOSE PRIVATE COMPANIES WHICH HAVE THE TECHNICAL KNOW-HOW. THE COMMUNITY WILL HELP FACILITATE ACP CONTACT WITH EUROPEAN FIRMS AND TRADE UNIONS BUT THE LDC'S MUST BE WILLING TO DEAL DIRECTLY WITH THOSE PARTIES. AMBASSADOR EBERLE EXPRESSED COMPLETE AGREEMENT WITH THIS POSITION NOTING THAT THE LDC'S MUST BE AWARE THAT GOVERNMENT TO GOVERNMENT AGREEMENTS PROVIDE A USEFUL UMBRELLA FOR TECHNOLOGICAL TRANSFERS BUT THAT THE LDC'S MUST APPROACH PRIVATE FIRMS FOR SOLUTIONS TO THEIR SPECIFIC NEEDS.

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(E) RULES OF ORIGIN: CHEYSSON INDICATED THE EC CAN STILL NOT ACCEPT THE LDC REQUEST FOR VERY LIBERAL RULES OF ORIGIN AND PROBABLY WILL GO NO FURTHER IN THE ACP FRAMEWORK THAN THE RULES OF ORIGIN PROVISIONS IN ITS GSP SCHEME. IN DISCUSSING QUESTION, CHEYSSON POINTED OUT THAT ONE DIFFERENCE LIES IN FACT THAT FORMER UK COLONIAL AREAS USE THE UK SYSTEM WHEREBY RULES OF ORIGIN DEPEND ON VALUE-ADDED CONCEPT WHEREAS EC INSISTS ON SYSTEM WHEREBY A CHANGE IN BRUSSELS TARIFF NOMENCLATURE MUST OCCUR TO ALLOW ORIGIN STATUS TO LDC EXPORTS. US SIDE (EBERLE) POINTED OUT THAT US HAD SIMILAR PROBLEMS WITH EC SYSTEM.

5. MOST SERIOUSLY AFFECTED LDC'S: US AND EC VIEWS ON NEEDS OF LDC'S MOST SERIOUSLY AFFECTED BY OIL AND OTHER COMMODITY PRICE INCREASES AND ON APPROPRIATE WAYS TO MEET THEM PROVED TO BE AT SOME VARIANCE. ALTHOUGH CHEYSSON INDICATED UNDERSTANDING OF US CONSTRAINTS IN PROVIDING SUCH ASSISTANCE, HE URGED THAT WE MAKE EVERY EFFORT TO BE FORTHCOMING.

A. NEEDS OF THE MSA'S - US SIDE PRESENTED DETAILED EXPLANATION OF CRITERIA IT HAS USED IN COUNTRY-BY-COUNTRY

ANALYSIS OF LDC NEEDS, INDICATING IT HAD DRAWN UP LIST OF SOME 25 COUNTRIES WHICH WOULD REQUIRE BETWEEN \$1.0-1.5 BILLION IN EACH OF CALENDAR YEARS 1974 AND 1975. CHEYSSON NOTED THAT EC ESTIMATE OF \$3 BILLION REQUIREMENT OVER 18 MONTHS WAS HIGHER BUT SAID THIS NOT MAJOR PROBLEM SINCE \$3 BILLION FIGURE IS A MAXIMUM WHICH COULD BE ADJUSTED DOWNWARD. EC SIDE (EUDE) ACCEPTED US OFFER TO EXCHANGE AND COMPARE EACH OTHER'S DATA IN COURSE OF CONTINUED EXAMINATION OF QUESTION IN UN FRAMEWORK.

B. INVOLVEMENT OF THE OIL PRODUCERS: US SIDE NOTED THAT EC PROPOSAL LIMITED OIL PRODUCER PARTICIPATION TO 50 OF OVERALL PROGRAM, A PERCENTAGE WHICH IS ARGUABLY TOO LOW IN VIEW OF OIL PRODUCER ROLE IN CREATING MAJOR PART OF PROBLEM AND DIFFICULT FINANCIAL SITUATION OF TRADITIONAL DONORS. CHEYSSON DID NOT DISAGREE WITH VALIDITY OF THIS ARGUMENT BUT INDICATED THAT 50-50 DIVISION MIGHT BE

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BEST MIX OBTAINABLE IN VIEW OF INEXPERIENCE OF MANY OIL PRODUCERS ON WORLD SCENE. HE THOUGHT IT SIGNIFICANT THAT TWO OIL PRODUCERS WHO HAD TO DATE SHOWN MOST AWARENESS OF NEED TO REACT TO MSA'S PROBLEM, VENEZUELA AND IRAN, WERE STATES WITH CONSIDERABLE EXPERIENCE ON INTERNATIONAL SCENE PRIOR TO ENERGY CRISIS. HE THOUGHT IT UNREALISTIC TO

EXPECT SMALLER ARAB STATES TO ACT RESPONSIBLY ON THIS AND OTHER COMPLICATED INTERNATIONAL QUESTIONS. BOTH SIDES NOTED DIFFICULTY IN GETTING ARAB OIL PRODUCERS TO OFFER RESOURCES OUTSIDE OF MOSLEM WORLD.

C. EC PROPOSAL: CHEYSSON STATED THE EC BELIEVED IN A FLEXIBLE AND IMMEDIATE PROGRAM IN CASH AND IN KIND. CONTRIBUTIONS COULD BE EITHER BILATERAL OR MULTILATERAL; TERMS SHOULD BE GRANT OR CONCESSIONAL AND SHOULD BE ADDITIVE TO NORMAL AID FLOWS. UNLESS OTHER PARTICIPANTS STRONGLY OPPOSED, EC WOULD PROPOSE THAT A SMALL PORTION OF THE EMERGENCY PROGRAM, PERHAPS 10 OR LESS, BE RESERVED FOR DISPERSAL AS A DIRECT RESULT OF RECOMMENDATIONS MADE AT AN INTERNATIONAL LEVEL IN ORDER TO FILL ANY COUNTRY GAPS IN BILATERAL PROGRAMS.

D. US RESPONSE: US SIDE INDICATED IT CONTINUING TO EXAMINE VARIOUS POSSIBLE US CONTRIBUTIONS TO THE EMERGENCY EFFORT, PARTICULARLY IN THE AREAS OF FOOD AND FERTILIZER AID BUT THAT LOWERED CROP ESTIMATES AND NEED TO OBTAIN CONGRESSIONAL SUPPORT FOR ON-GOING PROGRAMS MADE IT DIFFICULT TO PREDICT EXTENT OF US RESPONSE. US SIDE ALSO INDICATED THAT SUBSTANTIAL PORTION OF US EMERGENCY EFFORT LIKELY TO COME FROM REDIRECTING AID AWAY FROM LDC'S WHOSE NEEDS HAVE DECREASED AS RESULT OF HIGH COMMODITY PRICES. CHEYSSON, IN THE INTER-AGENCY MEETING ON JULY 29, EXPRESSED

UNDERSTANDING OF US SITUATION. IN SUBSEQUENT CONVERSATION WITH AMBASSADOR EBERLE, HOWEVER, HE DISPLAYED CONSIDERABLE CONCERN THAT USG MIGHT ULTIMATELY DECIDE IT UNABLE TO PARTICIPATE IN EMERGENCY PROGRAM OR PROVIDE ADDITIONAL ASSISTANCE TO MOST SERIOUSLY AFFECTED. CHEYSSON WARNED THAT, IF THIS OCCURRED, US WOULD BE SUBJECT TO CRITICISM IN EUROPE AND ELSEWHERE. HE ALSO EMPHASIZED THAT EC CONTRIBUTION COULD BE REDUCED TO EXTENT THAT US DID NOT

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PARTICIPATE AND IN THAT CASE US WOULD BEAR ONUS OF BLAME.

E. INSTITUTIONAL QUESTIONS: CHEYSSON SAID THAT, WHILE THE COMMISSION AND COUNCIL HAD NOT YET REACHED POSITION ON US PROPOSAL CONTAINED IN SECRETARY SIMON'S LETTER REGARDING THE STRUCTURE AND WORK OF THE PROPOSED DEVELOPMENT COUNCIL, THERE WAS CONSIDERABLE SYMPATHY FOR US VIEWS AMONG THE COMMISSIONERS, INCLUDING HIMSELF, DIRECTLY INVOLVED IN THE MATTER AND THAT EVENTUAL EC SUPPORT IS LIKELY. MEMBERS OF HIS STAFF SUGGESTED THAT COUNTRIES ARE LIKELY TO HAVE MIXED FEELINGS CONCERNING THE QUESTION OF MAKING THE DEVELOPMENT COUNCIL INDEPENDENT FROM OR LINKING IT DIRECTLY TO THE IBRD/IMF FRAMEWORK. THEY THOUGHT THAT CREATING AN INDEPENDENT FORUM MIGHT BE CONSTRUED AS A DEPARTURE FROM THE C-20 DECISION IN

JUNE WHICH WAS SUPPORTED BY THE USG. IN A MEETING WITH TREASURY UNDER SECRETARY BENNETT, CHEYSSON WAS GIVEN ADDITIONAL BACKGROUND ON THE US PROPOSAL AND INFORMED OF THE GENERALLY FAVORABLE REACTION TO IT WHICH SECRETARY SIMON RECEIVED DURING HIS TRIP TO THE MIDDLE EAST AND EUROPE. CHEYSSON NOTED THAT THE COMMISSION WAS AN OBSERVER IN THE C-20 AND WOULD LIKE TO HAVE A SIMILAR POSITION IN THE DEVELOPMENT COUNCIL.

WITH SPECIFIC RESPECT TO THE MSA'S, THE EC AGREED THAT NO NEW INSTITUTIONS SHOULD BE CREATED TO ADMINISTER THE EMERGENCY RELIEF EFFORT. CHEYSSON EXPRESSED BELIEF THAT A BODY WOULD BE NEEDED TO MONITOR CONTRIBUTIONS TO THE EFFORT AND THAT THIS BODY WILL PROBABLY HAVE TO BE LOCATED IN THE UN, ALTHOUGH THE IBRD/IMF FRAMEWORK MIGHT HAVE BEEN MORE DESIRABLE. CHEYSSON INDICATED THIS BODY MIGHT BE THE ONE TO MAKE THE SPECIAL DISPERSAL RECOMMENDATIONS MENTIONED IN SECTION C ABOVE.

6. THE MIDDLE EAST: IN THE INTER-AGENCY MEETING AND A SEPARATE MEETING WITH EUR ASSISTANT SECRETARY HARTMAN, CHEYSSON SAID THE COMMUNITY IS ANXIOUS THAT THE EURO-ARAB DIALOGUE BE DEVELOPED IN SUCH A WAY AS TO CONTRIBUTE TO, NOT HINDER, US EFFORTS TOWARD PEACE IN THE MIDDLE EAST. HE SPECIFICALLY SUGGESTED THAT WE CONSULT CLOSELY ON DEVELOPMENT ASSISTANCE PROGRAMS IN THE AREA INDICATING THAT CONFIDENTIAL

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WE MIGHT BOTH ENCOURAGE THE ARABS TO FOCUS ON PRODUCTS FOR WHICH THE EUROPEAN MARKET WOULD PROVIDE A NATURAL OUTLET. BOTH SIDES STATED THAT THEY SAW THEIR MAIN CONTRIBUTION TO MIDDLE EAST DEVELOPMENT AS LYING IN THE FIELDS OF TECHNICAL AND FINANCIAL EXPERTISE AND THAT ACTUAL FINANCIAL CONTRIBUTIONS WOULD BE LIMITED. BOTH SIDES ALSO SAID THAT TRADE PREFERENCES WOULD NOT BE GRANTED TO ARAB STATES AS PART OF NEW ECONOMIC RELATIONSHIPS (BEYOND THOSE CONTEMPLATED BY EC PRIOR TO THE ENERGY CRISIS). CHEYSSON INDICATED CONCERN THAT GOVTS, US AND EUROPEAN, SHOULD RECOGNIZE THAT THEY HAD A RESPONSIBILITY TO WORK WITH THEIR PRIVATE SECTORS TO AVOID UNECONOMIC PRODUCTION IN THE RUSH TO INVEST IN THE MIDDLE EAST. THE CONSEQUENCE COULD BE THE LATER IMPOSITION BY THE EC OF RESTRAINTS ON ENTERING ITS MARKET.

CHEYSSON INDICATED DISSATISFACTION THAT THE U.S. AND THE EC TOGETHER CONTRIBUTE MORE THAN 80 PERCENT OF THE UNRWA BUDGET. HE BELIEVES THAT THE WEALTHIER ARABS SHOULD BE DRAWN INTO UNRWA FUNDING AND SAID THAT THE EC WOULD RAISE THE SUBJECT INFORMALLY IN CONVERSATIONS WITH THE ARABS ON JULY 31 IN THE OPENING ROUND OF THE EURO-ARAB DIALOGUE. US SIDE EXPRESSED SYMPATHY FOR THIS POSITION BUT SAID THAT POLITICAL REALITIES MADE IT UNLIKELY THAT

SIGNIFICANT ARAB CONTRIBUTION WOULD BE OBTAINED.

7. WORLD FOOD CONFERENCE: US SIDE (AMBASSADOR MARTIN) INDICATED FOUR MAIN AREAS ON WHICH THE U.S. WOULD LIKE TO SEE PROGRESS AT THE WFC. (1) STEPS TO INCREASE FOOD PRODUCTION IN THE LDC'S. (2) MINISTERIAL AGREEMENT ON THE GENERAL PRINCIPLES OF A FOOD RESERVE SCHEME ALONG THE LINES SUGGESTED BY FAO DIRECTOR GENERAL BOERMA WITH DETAILS TO BE WORKED OUT LATER. THIS BASICALLY WOULD BE AN INTERNATIONAL SYSTEM OF NATIONAL RESERVES. (3) AGREED PRINCIPLES ON ENSURING FOOD AID AVAILABILITY AND BETTER CONSULTATIONS TO DETERMINE NEEDS. (4) AGREEMENT AT THE CONFERENCE THAT THE MTN SHOULD RESULT IN LOWERING BARRIERS TO TRADE AND FOOD. CHEYSSON EXPRESSED A NEAR UNANIMITY OF VIEW ON THE ABOVE ITEMS. HE ADDED THAT THE CONFERENCE SHOULD LOOK AT IMPROVED FISH AS WELL
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AS AGRICULTURAL PRODUCTION, AND THAT HE DISAGREED SOMEWHAT WITH U.S. EMPHASIS ON INCREASED RESEARCH, NOTING THAT BETTER USE OF EXISTING TECHNIQUES OF PRODUCTION, DEVELOPMENT OF BETTER MARKETS AND CREATING ADDITIONAL STORAGE FACILITIES ARE AT LEAST AS IMPORTANT. ON RESERVES AND FOOD AID HE EXPRESSED COMPLETE AGREEMENT. HE SAID THE EC ALSO AGREED WITH THE U.S. POSITION THAT TRADE QUESTIONS SHOULD BE RESERVED FOR THE MTN, NOTING HOWEVER THAT THE EC CONTINUED TO BELIEVE THAT BETTER MANAGEMENT

OF INTERNATIONAL TRADE, (I.E. COMMODITY AGREEMENTS) RATHER THAN A RESORT TO FREE MARKET FORCES SHOULD BE LONG-RANGE GOAL OF THE MTN. CHEYSSON INQUIRED WHETHER, AS A RESULT OF THE WORLD FOOD CONFERENCE THE SOVIET UNION COULD BE EXPECTED TO CONSULT MORE CLOSELY ON ITS FOOD PRODUCTION AND REQUIREMENTS. AMBASSADOR MARTIN INDICATED THAT WE HAVE NO CLEAR IDEA ON THIS SUBJECT BUT THAT THE SOVIETS HAVE BEEN RECEPTIVE TO U.S.-USSR TALKS IN ADVANCE OF THE THIRD PREPCOM. CHEYSSON AND MARTIN AGREED THAT THE WORLD FOOD CONFERENCE SECRETARY GENERAL MAREI IS LIKELY TO PROPOSE THE ESTABLISHMENT OF AN INTERNATIONAL AGRICULTURAL DEVELOPMENT FUND. MARTIN SAID THAT MAREI'S THINKING ON THE QUESTION HAS EVOLVED AWAY FROM A MAJOR NEW AGENCY AND THAT HE NOW PROBABLY HAS IN MIND A SMALL GROUP OF EXPERTS TO COORDINATE EFFORTS AND MONITOR FLOWS. BOTH SIDES AGREED ON THE NEED FOR FURTHER INFORMATION ON THE MAREI PROPOSAL AND ON THE DESIRABILITY OF MOVING IT IN THE LATTER DIRECTION.

8. FOOD AND FERTILIZER SUPPLIES:

(A) FERTILIZER: U.S. SIDE NOTED DIFFICULTY OF OBTAINING ADEQUATE FERTILIZER SUPPLIES FROM COMMERCIAL SOURCES FOR LDC USE, INCLUDING THROUGH AID-PROGRAMS. WE HAD HOPED

THAT GOOD 1974 CROPS WOULD HAVE LOWERED GRAIN PRICES AND REDUCED INCENTIVE FOR U.S. FARMERS TO FERTILIZE HEAVILY BUT THIS IS NOT HAPPENING. AMB. MARTIN ADDED THAT ONE BRIGHT SPOT IS THAT U.S. FERTILIZER PRODUCTION HAS REMAINED AT CAPACITY; HE URGED EC TO CONTINUE TO IMPROVE ITS OWN PRODUCTION. HE NOTED THAT PRICE INCENTIVES AND SPECIAL AID TECHNICAL ASSISTANCE EFFORTS HAVE IMPROVED

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OUTPUT IN MOST LDC'S ALTHOUGH INDIA REMAINED KEY EXCEPTION. CHEYSSON AND MARTIN AGREED ON NEED TO OBTAIN A GLOBAL VIEW OF FERTILIZER NEEDS OVER NEXT FIVE YEARS IN ORDER TO PROVIDE POTENTIAL INVESTORS WITH REASONABLE MARKET ESTIMATES TO COVER LARGE CAPITAL INVESTMENT REQUIRED. MARTIN NOTED THAT U.S. EXPERTS BELIEVE A SURPLUS PRODUCTIVE CAPACITY MAY BEGIN REEMERGING TOWARD END OF THIS DECADE BUT THIS NOT YET CLEAR.

(B) FOOD: U.S. SIDE SAID IT CONTINUING TO EXAMINE QUESTION OF EXPANDING FOOD AID PROGRAMS AND THAT RANGE FOR NEXT YEAR COULD BE ANYWHERE FROM PRESENT 800 MILLION DOLLARS UP TO ABOUT 1.5 BILLION DOLLARS U.S. ADMITTED THAT BAD WEATHER HAS BEEN MAJOR PROBLEM AND THAT WE WILL BE UNABLE TO REACH FOOD AID DECISION UNTIL AFTER AUGUST CROP REPORT IN. IN RESPONSE TO CHEYSSON'S REQUEST FOR BEST AVAILABLE U.S. ESTIMATES ON CROP PRODUCTION, U.S. SIDE INDICATED THAT SITUATION IN FOOD GRAINS, WHERE HARVEST

ALREADY LARGELY COMPLETED, IS NOT TOO BAD; U.S. CROP WILL BE A RECORD, ALTHOUGH SOMEWHAT LESS THAN ORIGINALLY ANTICIPATED, AND GENERAL WORLD PRODUCTION APPEARS TO BE UP. CRUCIAL SITUATION IS FOR FEED GRAINS AND SOYBEANS, WHERE U.S. IS MAJOR WORLD TRADER AND WHERE RAINFALL OVER NEXT FEW WEEKS WILL DETERMINE LEVEL OF U.S. HARVESTS.

CHEYSSON INDICATED THAT EC WAS MOVING IN DIRECTION OF EXPANDED FOOD AID PROGRAMS. HE NOTED THAT UK GOVERNMENT, PARTICULARLY MRS. HART, HAS MOVED AWAY FROM ITS STRONG OPPOSITION TO FOOD AID AND IS BECOMING INCREASINGLY AWARE THAT EC PROGRAM FOR FORESEEABLE FUTURE NEEDS TO BE BALANCED MIX OF CASH AND FOOD AID. HE ALSO INTENDS TO DEVELOP MORE SYSTEMATIC APPROACH TO EC FOOD AID, PUTTING TOGETHER A PROGRAM ON A THREE-YEAR BASIS. IN ADDITION, CHEYSSON STATED EC WANTS TO BROADEN ITS FOOD AID BASKET TO INCLUDE DAIRY PRODUCTS, MEAT PRESERVES AND SUGAR, WHEN SUPPLY OF LATTER PRODUCT IS LESS TIGHT. HE URGED THAT U.S. TAKE SIMILAR APPROACH, ATTEMPTING TO DETACH SIZE OF FOOD AID PROGRAM FROM WEATHER AND PRICE CONSIDERATIONS.

(C) EXPORT CONTROLS: IN PRIVATE MEETING, USDA ASSISTANT

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SECRETARY YUETTER TOLD CHEYSSON THAT PROSPECT OF LOWER THAN EXPECTED CROP PRODUCTION AND INCREASED DOMESTIC PRICES IS BEGINNING TO REVIVE PRESSURES IN U.S. FOR EXPORT CONTROLS ON FOOD AND FEED GRAINS AND SOYBEANS. CHEYSSON SAID SUCH AN EVENTUALITY WOULD LEAD TO SAME UNFAVORABLE REACTION IN EUROPE AS LAST YEAR. REACTION WILL BE EVEN STRONGER SHOULD U.S. CONTROLS ON FEED LEAD TO ADDITIONAL EC SLAUGHTERING OF LIVESTOCK AND INTENSIFICATION OF CURRENT GLUT IN MEAT.

9. COMMODITIES IN SHORT SUPPLY: U.S. SIDE SUGGESTED THERE IS A NEED TO CONVINCE LDC'S THAT THEY TOO MUST WORRY ABOUT SUPPLY AVAILABILITY AND ASKED THE EC TO EXAMINE WAYS TO MOVE LDC'S AWAY FROM VIEWING THE SITUATION AS CONFLICT SOLELY BETWEEN THEM AND DEVELOPED COUNTRIES. WE INDICATED THAT PRESENT ARTIFICIALLY HIGH PRICES OF COMMODITIES SUCH AS BAUXITE WOULD ENCOURAGE COSTLY DOMESTIC DEVELOPMENT OF ALTERNATIVE RAW MATERIAL SOURCES AND THAT THESE NEW INDUSTRIES WOULD DEMAND PROTECTION AGAINST FUTURE LOWERING OF COMMODITY PRICES. IN THE END, THIS WOULD PUT LDC PRODUCERS ON COLLISION COURSE WITH US. CHEYSSON RESPONDED THAT PRESENT PROBLEMS ILLUSTRATE SHORTCOMINGS OF RELYING ON LIBERALIZED MARKETS AND SUGGESTED WAY MUST BE FOUND TO INTEGRATE LDC'S PRIMARY PRODUCERS MORE CLOSELY WITH THEIR MARKET. HE SUGGESTED WAY OF DOING THIS IS TO ENCOURAGE PRIMARY

PRODUCERS TO BECOME INVOLVED IN FINISHING PROCESSES FOR THEIR RAW MATERIALS AND IN ACTUAL INTERNATIONAL MARKETING - FROM WHICH THEY WOULD GAIN REALISTIC IMPRESSION OF LIMITATIONS ON UPWARD PRICING OF GOODS IN SHORT SUPPLY.

10. OTHER SUBJECTS:

A. INVESTMENT GUARANTEES: CHEYSSON SAID THAT TIME MAY HAVE COME TO SEEK TO DEVELOP AN AGREED CODE OF CONDUCT ON FOREIGN INVESTMENTS. US SIDE (EBERLE) AGREED INDICATING THAT SHARING OF RISKS AMONG ALL DEVELOPED COUNTRIES WOULD ALSO DISCOURAGE EXPROPRIATION. BOTH SIDES AGREED THAT SUCH A CODE MIGHT ALSO INCLUDE PROVISIONS REQUIRING SOME COMMITMENTS FROM FOREIGN INVESTORS ON CONDUCT OF THEIR CONFIDENTIAL

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OPERATIONS.

B. GSP: CHEYSSON SAID THAT EC REMAINS IN THE DARK ABOUT THE IMPACT ITS GSP SYSTEM IS HAVING AND PLANS TO ESTABLISH A SPECIAL STATISTICAL SERVICE TO LOOK INTO THIS QUESTION. EC IS ALSO CONCERNED THAT GSP IS BEING USED MOSTLY BY A FEW ADVANCED LDC'S. THIS IS REASON WHY 1975 PROGRAM WILL

HAVE SPECIAL RESERVES FOR POOREST OF LDC'S AND WILL EXEMPT THEM FROM CEILINGS. FURTHERMORE, EC WILL SPONSOR SERIES OF SEMINARS TO PROMOTE BROADER UNDERSTANDING OF GSP.

US SIDE (GLITMAN) WELCOMED EC'S PROPOSED IMPROVEMENTS AND SAID US HAS BEEN EMPHASIZING TO LDC'S THAT GSP IS NOT A CURE ALL AND THAT REDUCTION IN BARRIERS IN MTN COULD BE MORE SIGNIFICANT FOR THEIR LONG RANGE INTERESTS. BOTH SIDES AGREED TO CONSULT CLOSELY ON POSSIBILITY OF STANDARDIZING THEIR TWO SYSTEMS ONCE US SCHEME COMES INTO BEING.

C. LDC'S IN THE MTN: BOTH SIDES AGREED ON THE NEED TO INVOLVE THE LDC'S MORE DIRECTLY IN THE WORK OF THE MTN AND TO MAINTAIN THE MOMENTUM ALREADY ACHIEVED IN PRELIMINARY NEGOTIATIONS. PARTICULAR ATTENTION WAS FOCUSED ON SOLID MOVEMENT IN TROPICAL PRODUCTS AREA WHERE LDC'S HAVE A BASIC INTEREST.

D. SAHEL RELIEF: IN MEETING WITH AID OFFICIALS ON JULY 30, CHEYSSON EXPRESSED ADMIRATION FOR PRAGMATIC APPROACH GENERALLY TAKEN BY US AND EC FIELD REPRESENTATIVES IN SAHEL AREA. BOTH SIDES AGREED ON NEED TO MAKE EARLY COMMITMENTS FOR 1975 PROGRAM. IN VIEW OF THE FACT THAT AN ON-THE-SPOT REPORT FROM MULTI-DONOR MISSION IS LIKELY TO BE LATE THIS YEAR, US AND EC OFFICIALS AGREED TO MAKE AN INITIAL INTERIM COMMITMENT IN ADVANCE OF THIS REPORT FOR AS MUCH AS TWO-THIRDS OF THEIR LIKELY EVENTUAL PROGRAMS.

THERE ALSO WAS AGREEMENT ON THE NEED FOR REALISTIC NEAR AND MID TERM PLANNING PROPOSALS FOR AREA. BARRING THIS, SAHEL GOVERNMENTS WILL USE THE POSSIBILITY OF FAR-OFF TECHNOLOGICAL INNOVATIONS AS AN EXCUSE TO DO NOTHING CONSTRUCTIVE AT PRESENT.
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E. WORLD POPULATION CONFERENCE: IN AID MEETING, US SIDE OUTLINED OUR POSITION FOR WORLD POPULATION CONFERENCE. COMMISSION SIDE (DURIEUX) EXPRESSED INTEREST IN OBJECTIVES BUT INDICATED THAT MEMBER STATES ARE HANDLING THIS QUESTION ON THEIR OWN AND THAT US APPROACHES SHOULD BE MADE DIRECTLY TO THEM.

F. BANGLADESH: AT SAME AID MEETING, EC ASKED WHETHER US COULD PAY TRANSPORTATION COSTS FOR FOOD AID EC HAS ALREADY OFFERED TO BANGLADESH ON AN FOB BASIS. EC EXPLAINED THAT IT HAD NO POSSIBILITY OF PAYING THESE COSTS FOR THIS ONE YEAR AND THAT BANGLADESH HAD INDICATED ITS INABILITY TO ACCEPT FOOD FOB. US SIDE EXPRESSED UNDERSTANDING OF PROBLEM BUT THOUGHT THERE WAS NOTHING WE COULD DO IN THIS INSTANCE. KISSINGER

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<< END OF DOCUMENT >>

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